

Testimony of Mark J. MacGuidwin, VP Finance and Chief Financial Officer
of Michigan CAT-June 16 ,2010

Honorable Members and Staff of the House Tax Policy Committee-

My name is Mark MacGuidwin and I am here in my capacity as Chief Financial Officer of Michigan CAT. It is an honor for me to testify here on behalf of my Company, a family-owned business, headquartered in Novi, which was incorporated in Michigan in 1943. So we have been here over 66 years. We are the authorized distributor of construction machinery, diesel and natural gas-powered engines and replacement parts produced by Caterpillar, Inc. We also service the machinery and engines that we sell. About 90% of our \$300 million of sales and service revenue are to Michigan-based construction and demolition contractors, quarry operators, steel mills, utility companies, and local governmental units, especially county road commissions. Our customers build and maintain our roads and bridges, lay underground pipes, develop construction sites and build homes and commercial facilities in our State. We employ over 500 people—all in the State of Michigan-- approximately 300 of whom are union members—mostly skilled mechanics—represented by Local 324 of the International Union of Operating Engineers. We have branch locations in each of Wayne, Oakland, Macomb, Ingham, Kent, Bay and Kalkaska counties.

I am here to testify in support of the Senate Bill 883 that would amend the State sales and use tax laws to allow a customer of ours to claim a credit for sales taxes that repair facilities like ours collect on the value of “cores” that are given to us in exchange for a rebuilt component. Allowing the customer to claim a credit for sales taxes assessed on the value of cores should be encouraged for several fundamental reasons:

1. we should not penalize a customer for buying a rebuilt part rather than having his failed part repaired. If his failed part is repaired, he is not assessed sales tax on the labor to fix the repaired part.
2. we should encourage the practice of exchanging worn out components for rebuilt components. In addition to reducing the amount of materials scrapped when a component is rebuilt, exchanges facilitate the most productive use of labor and machines. The customer's people and machines don't sit idle causing delays in project completion while waiting for a component to be repaired in the shop. And the service operation, such as ours, can perform the rebuilding of

components during its slower times to avoid layoffs and thereby build a stock of stand-by components that are “on the shelf” when a customer’s component fails.

We need to stop defining and taxing cores as if they are trades because (1) the repaired component ends up being taxed as if it were a new part, and (2) the exchanged component ends up with a sales tax on the service labor to rebuild it.

Although we would prefer that no sales tax be assessed at the time a core is valued, it would fairly serve our customers that they be allowed to claim a credit for this sales tax assessed. In our situation, we had approximately 11,000 core returns processed in a year totaling about \$5mm in value subjected to sales taxes. So the impact on the State from this change is not huge, but it impacts small construction companies in our State who are suffering from the lack of construction work during this prolonged slowdown.

.Thank you very much for this opportunity to speak, and I will be glad to answer any questions you have on this issue.